

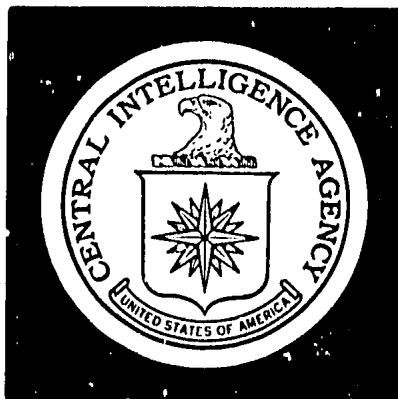
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Ghana's External Debt Burden

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
January 1970

INTELLIGENCE MEMORANDUM

Ghana's External Debt Burden

Introduction

After three and a half years under an army-police junta, Ghana returned to civilian rule on 1 October 1969. The economic legacy bequeathed to the newly elected government includes an improved balance of payments, an end to financing development through suppliers' credits, and considerable official long-term assistance. An enormous external debt, incurred largely during the earlier rule of Kwame Nkrumah, remains a central economic and political problem. Furthermore, the strengthened economic position was obtained at the cost of much domestic hardship and sacrifice, reflected in a high rate of unemployment and reduced investment. This memorandum examines the general economic situation inherited by the new government of Ghana and assesses the prospects through the early 1970s.

Background

1. Thirteen years ago, at independence, the economic outlook for Ghana was bright. It was producing about one-third of the world's supply of cocoa, and the prospects were favorable for increased sales of hardwood, gold, and other commodities. Some \$500 million had been accumulated in foreign exchange reserves. By African standards, the infrastructure was reasonably well developed, and, on the whole, its people were among the more skilled and literate in black Africa.

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2. Soon after independence, however, the charismatic Kwame Nkrumah, Ghana's first president, embarked on a largely politically motivated spending spree that led ultimately to a major economic crisis. Foreign exchange holdings were depleted, and Ghana was left with an enormous foreign debt, a burdensome state sector, and runaway price inflation. Investments in the public sector were financed extensively by medium-term credits from foreign suppliers, mostly in the United Kingdom, Germany, and Switzerland. By 1966, Ghana was overwhelmed with debt-servicing responsibilities. More than \$60 million of long-term loans and suppliers' credits were due in 1966, more than \$80 million in 1967, \$90 million in 1968, \$75 million in 1969, and somewhat smaller amounts were due in the next several years. In addition, short-term trade arrears, short-term foreign loans, and International Monetary Fund (IMF) repurchase commitments amounted to about \$170 million in 1966.

3. A military-police junta, the National Liberation Council (NLC), took over from Nkrumah in February 1966 and undertook a stabilization program with a hard line on spending. Wages, prices, and imports were closely controlled, and the currency was devalued by 30% in July 1967. The government moved slowly, but with some success, in its program of selling, consolidating, or otherwise bringing order to the assortment of public enterprises inherited from the Nkrumah era. Two reschedulings of foreign suppliers' credits through efforts of the IMF, the International Bank for Reconstruction and Development (IBRD), and creditor countries removed the most onerous immediate burden of such debt. (For a discussion of reschedulings in 1966 and 1968, see the Appendix.) Some further relief was provided by agreements with creditor countries to supply and coordinate foreign aid (currently through an IBRD-sponsored Consultative Group), and successive drawings on the IMF were arranged. Nevertheless, foreign exchange reserves at the end of 1968 were just \$22 million, or the equivalent of only four weeks' imports.

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Current Economic Problems

4. A concomitant of the stabilization program has been a dreary austerity and stagnant per capita income (roughly \$200). In 1966, population increased by almost 3%, but no offsetting gain in economic activity took place. Since 1966, the economy has grown somewhat, and the improvement in real gross domestic product (GDP) in 1967 and 1968 was about equal to the population increase.

5. The foreign exchange shortage has resulted in an insufficiency of imported raw materials, equipment, spare parts, and machinery for industry, construction, and transportation. The government licenses imports under a program of foreign exchange rationing designed to provide the maximum amount and proper mix of foreign goods to meet basic consumer needs and production requirements. The rise in GDP in 1968 was due mainly to increased industrial activity, reflecting the utilization of excess capacity following an improvement, under the licensing system, in the supply of raw materials and spare parts.

6. Unemployment increased during the period of the NLC's stabilization program as a result of the dissolution and scaling down of public ventures and the slowdown of investment activities. In 1966 and 1967 the decline in employment in construction, agriculture, commerce, and service industries was particularly large and more than offset increases in employment in manufacturing and public utilities. Unemployment may have increased somewhat in 1968. The labor force, defined as all economically active people over 14 years of age, consists of about 2.6 million small-scale farmers, sharecroppers, family workers, and wage and salary workers. As many as 600,000 are estimated to be unemployed, and this situation constitutes a serious political as well as economic problem for the new government.

7. The new civilian regime is having difficulty in continuing the anti-inflationary program begun in 1966. After domestic demand was damped by a reduction of budgetary deficits, wage controls, and a moderation in credit expansion, salaries in both public and private sectors were raised by about 10%

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over a fourteen-month period following the devaluation in 1967. Consumer prices rose by 8% during 1968, when heavy rains interfered with food marketing (see Table 1). Prices apparently rose a bit higher in 1969. Expenditures of the government's recurrent budget have been growing (by an estimated 16% in fiscal year 1969) in part because of wage increases and the higher cost of imports since devaluation of the currency.

8. Capital inflows, net of principal repayments, fell in 1968 to \$44 million, about one-third of the \$135 million for 1965. Private capital accounted for \$61 million of the decrease of \$91 million and official capital, the balance. Under the military-police government, suppliers' credits were curbed, and remittances were restricted. These actions had a decidedly adverse effect on foreign investment, and the offsetting disbursement of long-term aid from foreign governments was slow in getting underway.

9. Despite some cancellations and some repayments by the NLC, Ghana faces the prospect of paying about \$970 million of principal and interest on outstanding foreign indebtedness (see Table 2). About \$360 million consists of suppliers' credits and long-term debt through 1975, and almost \$190 million is for necessary short-term indebtedness involving repurchases from the IMF, for clearances of arrears in payments and blocked profits, and for reduction of 180-day trade credits. In addition to the costs of outstanding debt, more than \$50 million of debt servicing on expected new commitments, projected on the concessional aid terms of the members of the Consultative Group of aid donors, is likely through 1975.

Prospects for the Next Few Years

10. Because of the burden imposed by the scheduled repayment of debts, Ghana's economic progress is likely to be slow. During the next few years, GDP should grow at an annual rate of somewhat less than 3%, a rate approximately equal to the estimated annual growth of population (projected to accelerate from a somewhat lower rate). Meeting the debt repayments, although feasible,

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Table 1

Ghana: Selected Economic Statistics

	Units	1965	1966	1967	1968
Gross domestic product (GDP)	Million US \$	1,576	1,757	1,758	N.A.
Per capita GDP	US \$	204	221	216	N.A.
GDP (1960 prices)	Million US \$	1,090	1,091	1,119	1,155 <u>a/</u>
Rate of growth	Percent	1.4	0.1	2.6	3 <u>a/</u>
Population	Thousand	7,735	7,935	8,145	8,365
Rate of growth	Percent	2.6	2.6	2.6	2.7
National consumer price index					
Averages of monthly data	March 1963 = 100	151	171	157	170
Employment in establishments with ten or more employees	Thousand	392	358	343	360 <u>a/</u>
			<u>1966/67</u>	<u>1967/68</u>	<u>1968/69 Budgeted</u>
Government expenditures, ordinary	Million US \$ <u>b/</u>	256	222	274	318
Government expenditures, developmental	Million US \$ <u>b/</u>	145	90	74	103 <u>c/</u>
Government bank borrowing	Million US \$ <u>b/</u>	63	12	1	0

a. Estimated.

b. Converted at the exchange rate of 1.02 New Cedis to US \$1.

c. A marked decline is expected from this budget level.

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Table 2

Projected Debt Schedule, Principal and Interest Combined
After Reschedulings in 1966 and 1968

Million US \$

	Debt Outstanding as of Mid-1969			Arrears, IMF Repurchases (Net) and Others	Expected b/ New Debt	Total
	Long Term a/	Official Suppliers' Credits	Total			
1969	15.8	33.2	49.0	30.3	1.7	81.0
1970	15.6	22.2	37.8	51.7	3.3	92.8
1971	15.3	26.1	41.4	43.8	5.4	90.6
1972	15.3	37.5	52.8	25.8	7.6	86.2
1973	15.7	40.4	56.1	15.8	9.6	81.5
1974	15.1	43.9	59.0	11.4	11.7	82.1
1975	16.0	48.1	64.1	9.4	15.1	88.6
Through 1975	108.8	251.4	360.2	188.2 c/	54.4	602.8
After 1975	197.2	222.7	419.9			
Total	306.0	474.1	780.1			

a. Includes private sector borrowing in the approximate total amount of \$10 million through 1975.

b. Based on the assumption that, after mid-1969, annual concessional assistance will be given by donor countries, in amounts consistent with Table 4, at average terms of 3% interest, six years of grace for payments of principal, and 30 years for amortization after the grace period.

c. Exceeds the total of short-term items shown in Table 5 principally because of the inclusion here of financing to reduce to some extent the volume of 180-day trade credits. Because of rounding, components may not add to the totals shown.

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would mean that the austerity and stagnant per capita income characteristic of recent years will continue. This prospect is repugnant to the politicians who campaigned on the theme of getting the economy moving. Any moderation of current restrictions to allow larger imports of maintenance and investment goods, however, will require an increase in export earnings, higher capital inflow, and, most probably, a rescheduling of debt payments.

11. Ghana's ability to raise the foreign exchange required for any development will be critically dependent on increases in exports, particularly of cocoa. Cocoa constitutes 10% of the GDP and is responsible for two-thirds (\$209 million in 1968) of receipts from exports and about one-third (\$113 million in the 1968/69 budget) of government revenues. Although Ghana is the largest producer of cocoa, with about 30% of world output in recent years, production suffered during the Nkrumah era because of inattention to agricultural pests and because of deterioration in trees and farm-to-market roads. A quick increase in cocoa output by a stepped-up program of disease control appears possible, and a sharp rise in world prices of cocoa since 1965 bodes well for an increase in export earnings. Since the mid-1960s world production has not kept up with demand and stocks have been reduced to near exhaustion levels. By late 1968, prices climbed to 45 cents a pound in the New York market, two and one-half times the 1965 level. By the end of 1968, Ghana's foreign exchange proceeds from cocoa had risen to \$209 million from the recent low of \$175 million in 1966. The IBRD projected Ghana's cocoa earnings for 1969 at \$250 million and suggests that about \$333 million can be expected in 1970. Over the next few years, prices are likely to return to a much lower level, as larger crops are produced throughout the world. Proceeds for the early 1970s as projected by the IBRD, while lower than the high expected in 1970, will exceed those of 1969 (see Table 3). In the early 1970s, non-cocoa exports should attain an approximately 5% annual increase in foreign earnings above the level of \$109 million in 1968. The currency devaluation of July 1967 provided incentive for the export of timber, and diamond production is expected to increase with an extension of mining activity into new areas.

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Table 3
Balance of Payments

Million US \$

Million US \$											
	Actual			Esti- mated	Projected Values						
	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Export receipts and capital inflows	506	387	336	388	449	543	535	510	507	542	572
Exports	321	280	284	318	363	455	420	401	399	438	467
Of which:											
Cocoa	208	175	184	209	250	333	294	270	260	294	318
Official capital (gross)	99	54	26	45	68	67	78	85	83	78	78
Private capital (net)	86	53	26	25	18	21	37	24	25	26	27
Payments excluding imports	113	62	77	100	94	97	103	115	114	130	141
Debt service (principal and interest)	65	10	18	46	51	41	47	60	66	71	79
Other payments, net of other receipts	48	52	59	54	43	56	56	55	48	59	62
Net of receipts and payments, excluding imports	393	325	259	288	355	446	432	395	393	412	431
Other factors affecting availabilities											
IMF (net) short-term credits, arrears, and others	+2	+50	+23	+20	-30	-52	-44	-26	-16	-11	-9
Change in convertible reserves (and bilateral balances through 1968)	+86	-20	+13	-6	+7	-44 a/	-10 a/	+10	+10	--	--
Imports b/	481	355	295	302	332	350	378	379	387	401	422

a. Expected accumulation in reserves (indicated by a minus sign) beyond that to be drawn down in following years is expected to be retained for working capital.

b. Derived as a residual.

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12. Improvements are expected in the level of capital inflow. Net private foreign investment, which lagged during the period of the NLC, probably will increase from \$18 million in 1969 to about \$25 million in 1973, if the government improves the investment climate by clearing past blocked profit remittances and allows current profit remittances. Investments in a facility to produce aluminum are expected to peak in 1971, accounting for a humping of investments in that year of an estimated \$37 million. Private investment, however, is not expected to approach the levels of the mid-1960s (see Table 3). Judging from recent commitment levels of bilateral donors and an anticipated significant increase from World Bank sources, aid disbursements through the early 1970s probably will rise, with the drawdown of prior commitments, to approximately \$80 million each year (see Table 4). Such aid, however, still will be below the level of the Nkhrumah era, when aid was swollen with government-guaranteed suppliers' credits.

13. Including the servicing of expected new debt, Ghana will be obligated to pay more than \$80 million each year and more than \$90 million in some years on its foreign debt (see Table 2). By comparison, expenditures of the government under the development budget for the year ending June 1969 are estimated at about \$83 million. Service payments, including short-term debt, are expected to equal 22% of exports in 1969, 20% and 22% in 1970 and 1971, respectively. By the mid-1970s, rising debt servicing costs approximately will offset deliveries under the aid program (see Table 3).

14. Because of continuing foreign exchange stringencies, imports in the early 1970s are expected to rise steadily but slowly (about 4% a year). Since the import content of Ghana's manufacturing output and capital formation is between 40% and 50%, growth in that sector of GDP is tied closely to imports. Sluggish growth in imports, therefore, is likely to mean no meaningful improvement in either per capita income or employment. As a result, strong pressure will confront the new government to increase imports, despite the present and prospective shortage of foreign exchange. Workers and the unemployed were restive under the restrictive policies of the army-police regime, and the leaders of the new civilian government have promised to help.

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Table 4

Projected Official Capital Receipts, by Source

	Million US \$			
	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
United States				
Development loans	21	15	18	20
PL480	12	18	18	18
United Kingdom	11	10	10	10
Federal Republic of Germany	5	6	5	6
Italy	5	5	5	5
Other bilateral donors	7 <u>a/</u>	10 <u>a/</u>	6	6
IDA/IBRD	7	3	15	20
<i>Total</i>	<i>68</i>	<i>67</i>	<i>78</i>	<i>85</i>

a. Including disbursements from suppliers' credits contracted earlier.

15. The new government considers the debt servicing burden as the principal deterrent to economic growth. In October 1969 the Prime Minister indicated to US and other Western leaders that his government wished to meet representatives of creditor countries to discuss Ghana's foreign exchange problem. Creditors probably will meet in the summer of 1970, and the donor governments are likely to acquiesce, as in previous rescheduling exercises, to a reasonable change in the debt structure.

16. If debt servicing payments were postponed, thereby reducing the claims on foreign exchange, the economy could plan on imports in the short run that are more commensurate with growth needs. A rescheduling probably would involve mainly suppliers' credits as in past reschedulings, and particularly

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those that fall due after 1972. The amounts falling due on suppliers' credits in the intervening years were postponed in previous reschedulings. The effect of rescheduling, however, could be felt to some extent in 1970 and 1971 because the government would no longer have to husband the expected foreign exchange surpluses in these years for subsequent debt service payments and for working capital. Augmented imports probably would consist of capital goods (machinery, other equipment, and vehicles) and raw materials for manufacturing. By importing additional raw materials, the momentum in manufacturing could be increased through the further production of import substitutes, particularly durable consumer goods, construction materials, and some processed food.

17. Higher import levels can be expected to be related to a higher growth of GDP. Because of an easing of the foreign exchange constraint, capital in place and some imported capital goods could be used more efficiently, and the effect on the gross product would be immediate and a multiple of outlays. Judging from statistics for the early 1960s, the GDP would be raised by about three times the increase in imports. Previous reschedulings have reduced the annual debt servicing costs by more than \$30 million in the short run; Ghana's GDP, which was \$1.76 billion in 1967, thus might rise by \$90 million to \$100 million above the level otherwise obtained in those years covered by the postponement. Such an improvement would decrease unemployment in the affected areas of government, private construction, and manufacturing.

Conclusions

18. Strong pressures confront the new Ghanaian government to take positive actions to stimulate economic growth and employment after almost four years of austerity. The stabilization efforts of the preceding junta government have arrested a serious economic deterioration and helped to pave the way for a new development effort. Yet Ghana has not been able to build up significant foreign exchange reserves, unemployment continues high, and a large foreign debt remains.

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19. During the next several years, if debts are paid as now scheduled, the rate of economic growth is not expected to exceed that of growth of population, so that austerity and stagnant per capita income are likely to continue. Although export earnings and capital inflow probably will improve somewhat, the shortage of foreign exchange will remain a serious obstacle to development. The prospect for much increased economic assistance is unlikely, and measures to attract significantly higher inflows of private foreign capital are not expected to be particularly successful.

20. For foreign exchange, Ghana must depend mainly on cocoa proceeds in the short run, despite anticipated severe fluctuations in cocoa prices and probably in cocoa earnings. To make foreign exchange available for increased imports, which would improve prospects for growth and employment, the government is initiating negotiations for a rescheduling of its onerous debt burden.

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CONFIDENTIAL**APPENDIX****Debt Rescheduling of 1966 and 1968
and Subsequent Developments Concerning Debt**

Suppliers' credits, contracted during the Nkrumah era in the amount of almost \$600 million, were clearly responsible for the excesses in external debt. These medium-term credits (loans with final maturities of 1-12 years) had been easy to come by, since foreign suppliers of capital equipment and materials usually stood ready to offer financing to the Ghanaian government under programs of the creditor governments that insured the suppliers against default. In general, the governments of the developed countries whose nationals supplied Ghana with goods on credit were responsible under the insurance programs to accept all but a fairly small percentage of the burden of default or re-scheduling.

Representatives of 13 Western countries met in 1966 and 12 of them met again in 1968 to establish general guidelines for subsequent bilateral agreements with Ghana to reschedule suppliers' credits. They agreed that payments of principal and interest previously due over the period of six years and one month, June 1966 - June 1972 inclusive, were to be made over ten and one-half years, July 1971 through December 1981, except for 20% to be paid in installments starting in July 1967. Some bilateral agreements have been reached, and the prospects are good that agreements will be concluded with all creditor countries -- including mainland China and the East European countries. A settlement with the USSR provided for a rearrangement of payments due on the bulk of Ghana's debt and postponed half the payments which were to have fallen due during 1967-70.

Although rescheduling eased the repayment burden on existing suppliers' credits, additional debt servicing obligations have been contracted. More interest is to be paid because of the extension of the time frame of the debt, and new stabilization and development loans have been obtained from the IMF and creditor countries. Table 5 traces the changes in the level of various types of debt during the period of the NLC.

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Table 5

Changes in Amounts of Government Debt, by Type,
Because of Repayments, Cancellations, Rescheduling, and New Loans a/

Million US \$

	External Debt			Long-Term Loans		Suppliers' Credits		Arrears, IMF Repurchases, and Others	
	Total	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
External debt, 23 February 1966	789	674	116	102	57	398	59	174	--
From February 1966 to May 1969									
Contracted debt	+276	+236	+40	+140	+36	--	--	+96	+4
Repayments and cancellations	-254	-209	-45	-13	-15	-87	-30	-110	--
Effects of rescheduling b/	+135	+53	+82	--	--	+53	+82	--	--
External debt, 31 May 1969	946 c/	753	193	229	77	363	111	160	4 c/

a. Because of rounding, components may not add to the totals shown.

b. One consequence of rescheduling was the conversion of original interest payable into "principal" to be repaid after June 1971. An increase in interest payments reflects a longer time frame of payments because of rescheduling.

c. Excludes interest charges and loss of cash rebates under an extensive 180-day credit system of payment for non-aid imports.